



# Financing Universal Social Protection in Times of Austerity

Isabel Ortiz

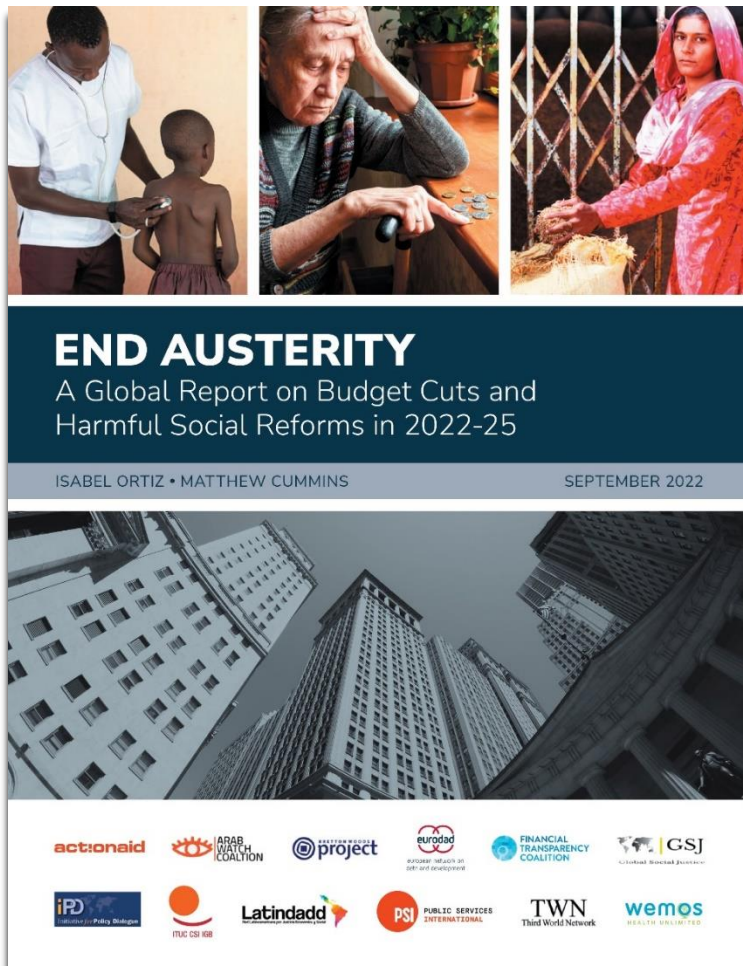
ITUC/WSW Conference on Financing Universal Social Protection:  
Opportunities for Action at the National and International Levels

23 January 2023

# Based on:

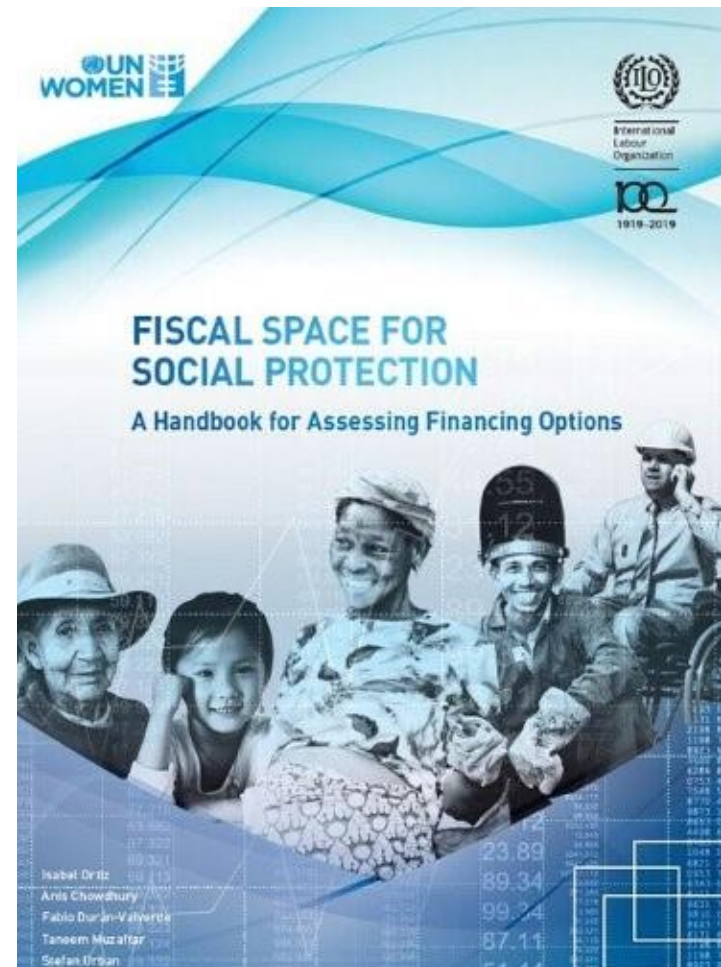
## End Austerity: A Global Report on Budget Cuts and Harmful Social Reforms in 2022-25

Published by ITUC, GSJ and other



## Handbook on Fiscal Space for Social Protection: Assessing Financing Options

Published by ILO and UNWOMEN



# Austerity 2022-24

In 2023, 85% of the world population affected by austerity cuts

Countries projected to contract total government expenditure in GDP terms in 2022-24



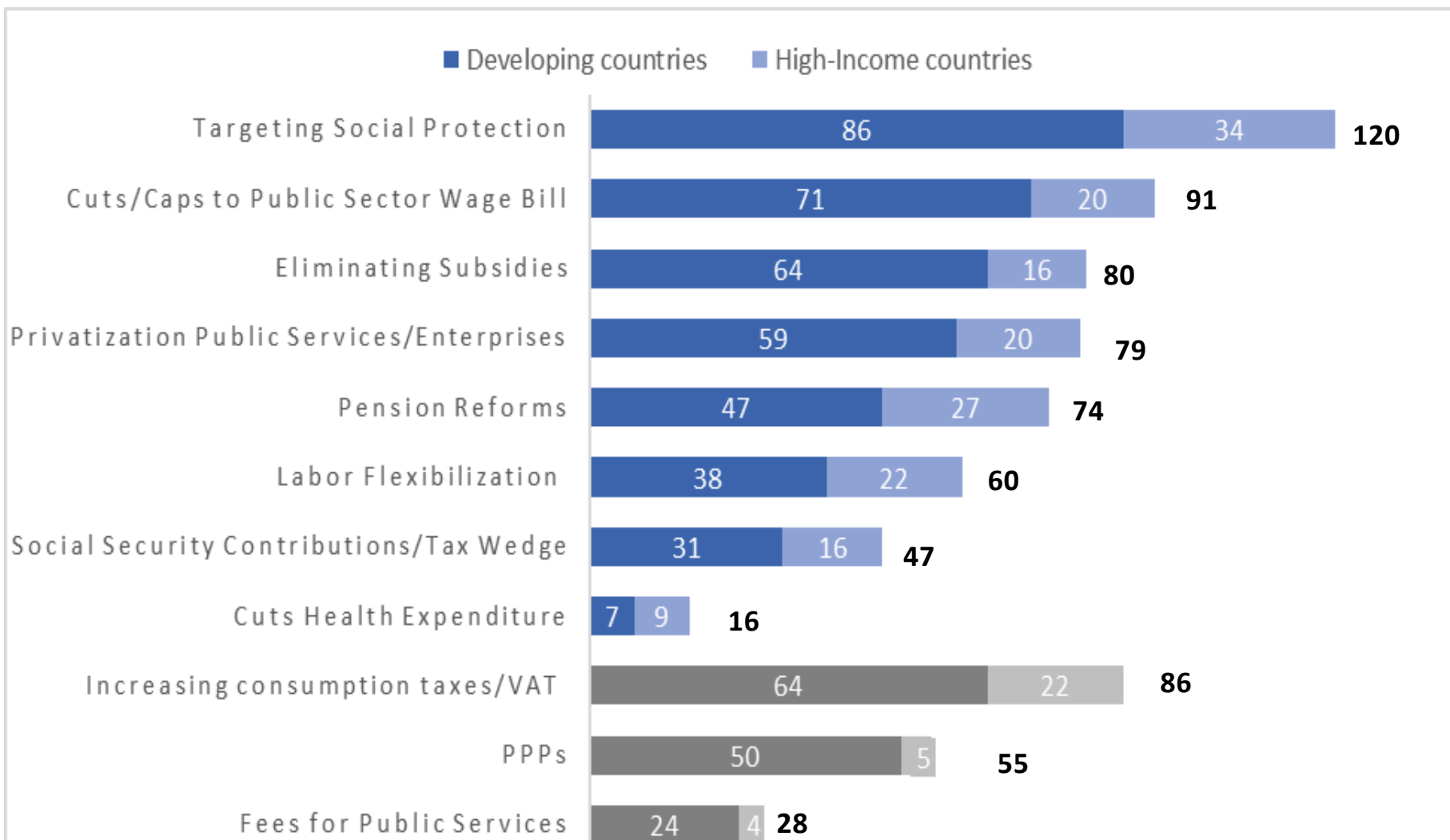
Source: Ortiz and Cummins, 2022: [End Austerity: A Global Report on Budget Cuts and Harmful Social Reforms in 2022-25](#), based on IMF's World Economic Outlook (April 2022)

Note: Data unavailable for Afghanistan, Ecuador, Lebanon, Syria, Tunisia, Ukraine and Venezuela



# Austerity measures in 185 countries, 2020-22

(in number of countries)



Source: Ortiz and Cummins, 2022: [End Austerity: A Global Report on Budget Cuts and Harmful Social Reforms in 2022-25](#), based on review of 267 IMF country reports

# Austerity or Fiscal Consolidation Measures 2020-22

Need to watch out for austerity measures. A review of 267 IMF country reports published between 2020-22 shows that the most common are regressive with negative impacts on people, particularly women:

- **Targeting and rationalizing social protection (“safety nets”)** in 120 countries, at a time when governments should be scaling up (not scaling down) social protection.
- **Wage bill cuts or caps** in 91 countries, reducing or freezing the salaries and number of public-sector workers who provide essential services to the population, e.g. teachers, health workers.
- **Eliminating subsidies** (fuel, food, agricult) in 80 countries, despite record-high food/fuel prices
- **Privatization/Commercialization of Public Services or SOE Reform**, in 79 countries
- **Pension and Social Security reforms** in 74, adjusting/reducing benefits and entitlements
- **Reducing Social Security contributions/“tax wedge”** in 47 countries as a way to support employers but compromising social security sustainability
- **Labor flexibilization reforms** in 60 countries, reducing employment protections
- **Containing Health expenditures** in 18 countries, despite the pandemic.
- **VAT increases on basic goods and services that are consumed by the poor – and which may further contract economic activity – in 86 countries.**

# Austerity measures in all world regions

(in number of countries)

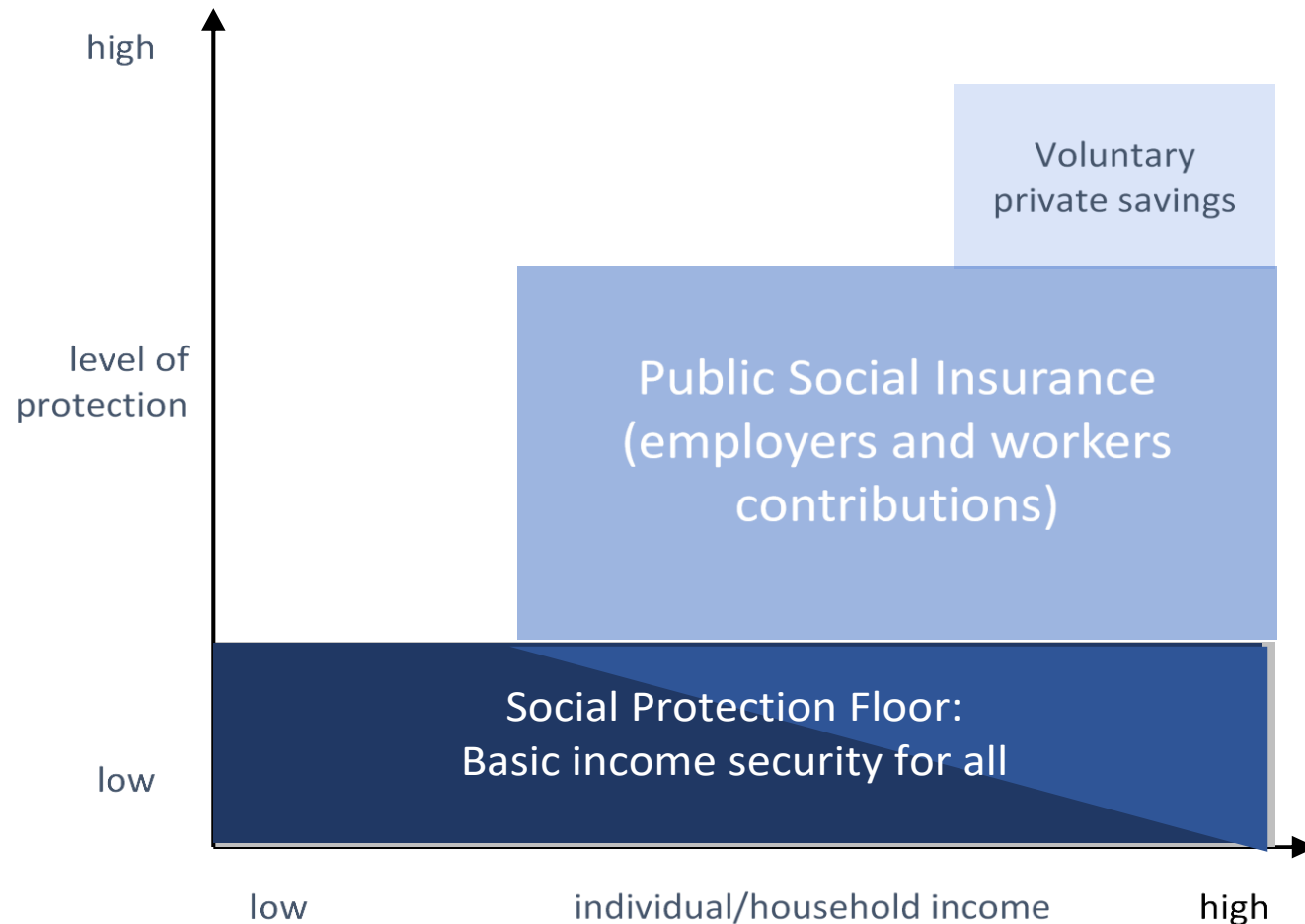
	Targeting social protection	Wage bill cuts/caps	Consum ption tax VAT	Subsidy reduction	Privatiz e SOEs	Pension reform	Labor flexibil reform	PPPs	Reduce SS contri- - butions	User fees	Reduce health budget
<b>East Asia and Pacific</b>	15	6	12	9	9	9	7	8	6	2	0
<b>Europe and Central Asia</b>	38	26	23	18	19	28	21	11	27	5	6
<b>Latin America and Caribbean</b>	20	17	15	14	13	16	11	10	9	5	6
<b>Middle East and North Africa</b>	12	9	8	9	8	9	10	7	5	4	1
<b>South Asia</b>	5	5	3	4	4	2	3	3	0	1	0
<b>Sub Saharan Africa</b>	29	28	24	25	26	9	8	16	0	11	2
<b>All countries</b>	120	91	86	80	79	74	60	55	47	28	16

Source: Ortiz and Cummins, 2022: [End Austerity: A Global Report on Budget Cuts and Harmful Social Reforms in 2022-25](#),  
based on review of 267 IMF country reports

# Typical Universal Social Protection System

Countries achieve universality by a mix of **PUBLIC social insurance** (*financed from contributions*) and a **floor of social assistance** (*financed from the general budget*)

**Figure 1.4 The social protection or social security system agreed by world governments, employers and workers**



# IMF/IFIs challenging the redistributive role of social protection, austerity policies will result in larger inequality

Social protection is the most redistributive public policy – reduces inequality by 3 channels:

1. Direct cash transfers from national budgets to a number of citizens (eg older persons, families with children, disabled, the poor, etc)
2. In the case of contributory public schemes, additional transfers from employers to workers
3. Transfers within schemes, as public social security systems are designed to redistribute income from those with higher lifetime earnings to those with lower lifetime earnings.
4. Additionally, other labor protections removed

**Targeting/reducing coverage and Reducing benefits**

**Cutting “labor taxes” (employers contributions to Social Security)**

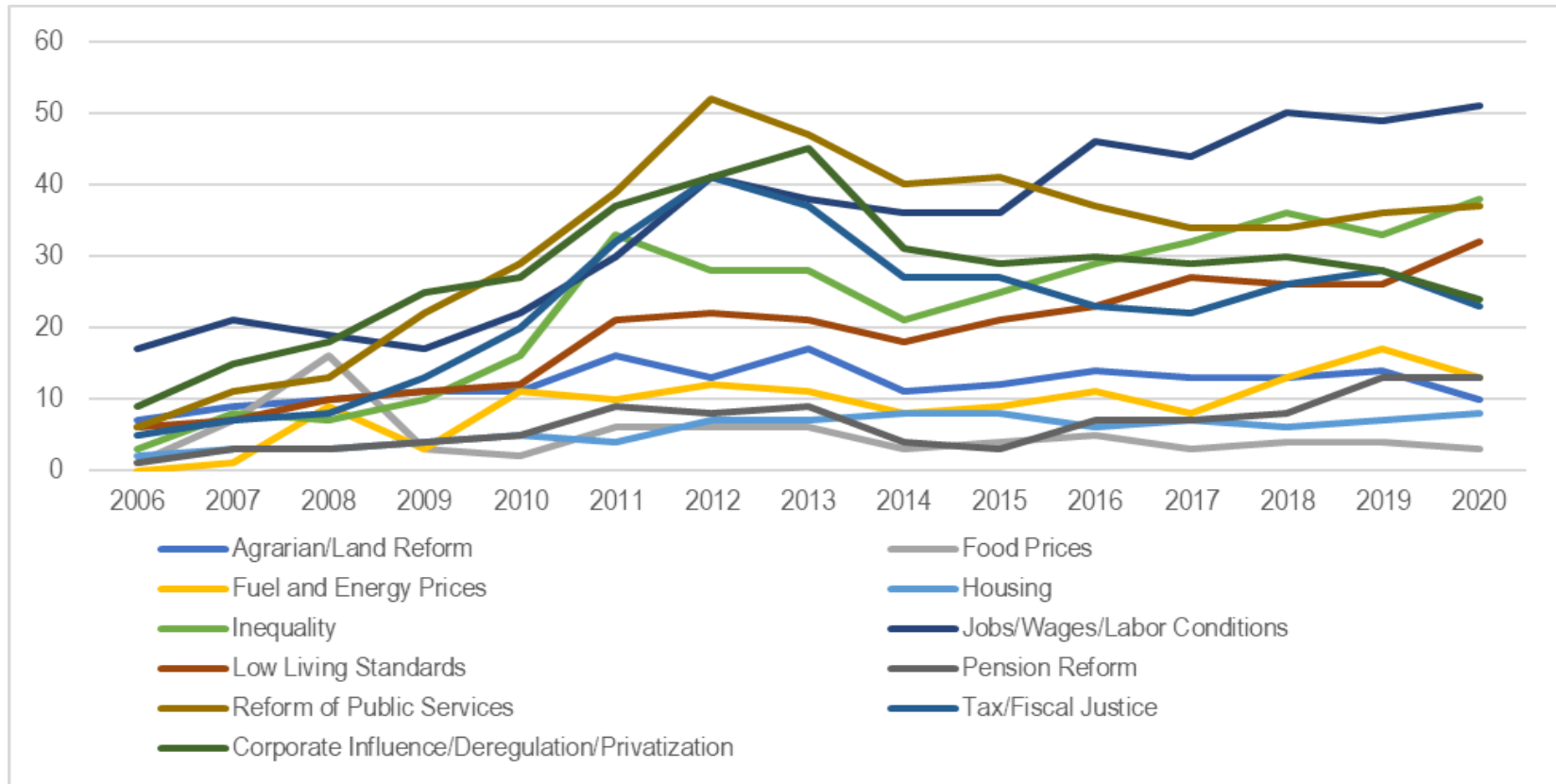
**Pension Reforms**

**Labor Flexibilization Reforms**



# Austerity cuts with negative social impacts must be avoided

Rising discontent and conflict: Anti-austerity protests in 101 countries, 2006-2020  
(in number of protests/year)



Source: Ortiz et al., 2022: [World Protests](#). Palgrave Macmillan.

=> Expenditure and financing decisions that affect the lives of millions of people cannot be taken behind closed doors at the Ministry of Finance, but in national social dialogue with representative trade unions, federated employers and CSOs

# There are Alternatives: Financing Options for Universal Social Protection Exist even in the Poorest Countries

There are at least 9 options, known to governments and fully supported by policy statements of the UN and the IFIs:

1. **Increasing tax revenues** through progressive sources (avoiding VAT) e.g. on corporate profits, financial activities, wealth, property, imports/exports, natural resources, digital services or ending 'special economic zones' and other tax exemptions/breaks to big corporations. For example:
  - **Wealth taxes:** Argentina, Iceland and Spain
  - **Taxing windfall profits in the energy sector** Algeria, Angola, Australia, Canada, Kazakhstan, Italy, Mauritania, Mozambique, Norway, Papua New Guinea, Russia, Saudi Arabia, the UK
  - **Taxing Digital services:** Belgium, Canada, France, India, Indonesia, Kenya, New Zealand, Tunisia, Türkiye
  - **Financial transactions tax** in Argentina, Brazil; Hungary and Spain **new taxes to banks' windfall profits**
  - **Mining and gas taxes:** Bolivia, Mongolia and Zambia financing universal social protection schemes such as pensions and child benefits
2. **Fighting illicit financial flows:** These are large, such as money laundering, bribery, tax evasion, trade mispricing, and other financial crimes

# There are Alternatives: Financing Options for Universal Social Protection Exist even in the Poorest Countries

3. **Restructuring/eliminating debt** – concept of illegitimate debt. Five main options: (i) debt relief/cancellation (eg HIPC); (ii) re-negotiating debt (more than 60 countries in recent years); (iii) debt swaps/conversions (over 50 countries); (iv) repudiating debt; and (v) defaulting (more than 20 have defaulted or repudiated public debt, such as Ecuador, Iceland and Iraq, investing savings in social programs). An international debt resolution mechanism and ore debt cancelation needed.
4. **Increasing social security contributions by adequate employers' contributions and formalizing workers** in the informal economy with decent contracts (eg Argentina, Brazil, Tunisia, Uruguay).
5. **Re-allocating public expenditures** focus on replacing high-cost and low-social-impact expenditures (eg. defense - Costa Rica, Thailand)
6. Tapping into **fiscal and foreign exchange reserves** (eg Chile, Norway).
7. **Adopting a more accommodative macroeconomic framework** (tolerance to some inflation, fiscal deficit).
8. **Lobbying for more aid and transfers** (e.g. Global Social Protection Fund).
9. **New SDR allocations**, but with a better mechanism that does not increase debt and conditionalities, a fairer and periodic distribution of SDRs

# Fiscal Space Strategies for Universal Social Protection: Country Examples

Strategy	Pl. State of Bolivia	Botswana	Brazil	Costa Rica	Lesotho	Iceland	Namibia	South Africa	Thailand
Reallocating public expenditures				X	X	X		X	X
Increasing tax revenues	X	X	X		X	X			X
Expanding social security contributions			X	X	X		X	X	X
Reducing debt/debt service	X	X	X	X	X	X		X	X
Curtailing illicit financial flows						X	X		
Increasing aid							X		
Tapping into fiscal reserves	X	X	X						
More accommodating macroeconomic framework	X		X			X			

Source: Ortiz, Cummins, Karunanethy 2015: "[Fiscal Space for Social Protection: Options to Expand Social Investments in 187 Countries](#)" ILO.

# Financing Universal Social Protection is Feasible

## Policy Options Must Be Agreed in National Social Dialogue

- Expenditure and financing decisions that affect the lives of millions of people cannot be taken behind closed doors at the Ministry of Finance, but in national social dialogue with representative trade unions, federated employers and CSOs
- Ministers of Finance/Planning should have all possible fiscal scenarios and options, associated social impacts, risks and trade-offs, fully explored.
- A set of adequate policy and financing options for universal social protection and inclusive development must be agreed in national social dialogue.







# THANK YOU

## REFERENCES:

Ortiz and Cummins (2022): [End Austerity: A Global Report on Budget Cuts and Harmful Social Reforms in 2022-25](#). Amsterdam, Brussels, Geneva, Johannesburg, Lima, London, New York, Penang, Rabat: ActionAid, Arab Watch Coalition (AWC), Eurodad, Financial Transparency Coalition (FTC), Global Social Justice, Initiative for Policy Dialogue (IPD), International Trade Union Confederation (ITUC), Latindadd, Public Services International (PSI), The Bretton Woods Project, Third World Network (TWN) and Wemos.

Ortiz, Chowdhury, Duran, Muzaffar and Urban (2019) [Handbook on Fiscal Space for Social Protection: Assessing Financing Options](#) Geneva and New York: ILO and UNWOMEN



There is a global campaign to  
**#EndAusterity** JOIN!  
<https://www.endausterity.org/>